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OMB APPROVAL

OMB Number: 3235-0123

Expires: August 31, 2020

Estimated average burden

Hours per response . . . 12.00

ANNUAL AUDITED REPORT  
FORM X-17A-5 /A  
PART III

mail Processing  
Section

APR 18 2018

SEC FILE NUMBER

8-66572

FACING PAGE

Washington DC

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/17 AND ENDING 12/31/17  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER - DEALER:  
CAPSTONE CAPITAL MARKETS LLC

OFFICIAL USE ONLY

FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
176 FEDERAL STREET, LBBY 3

(No. and Street)

BOSTON  
(City)

MA  
(State)

02110  
(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

KEN GEORGE

0  
(Area Code - Telephone No.)  
603-380-5435

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

WOLF & COMPANY

99 HIGH STREET

(Name - if individual, state last, first, middle name)  
BOSTON MA

02110

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

☒ Certified Public Accountant

☐ Public Accountant

☐ Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

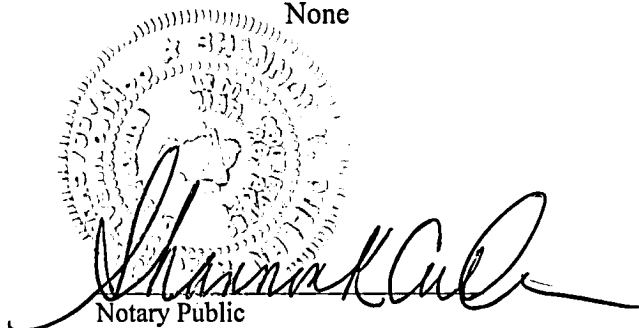
SEC 1410 (06-02)

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## OATH OR AFFIRMATION

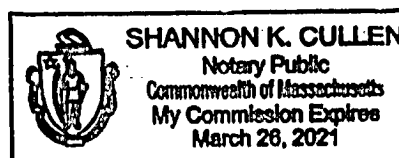
I, JOHN M. FERRARA, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statements and supporting schedules pertaining to the firm of CAPSTONE CAPITAL MARKETS LLC, as of December 31, 2017, are true and correct. I further swear (or affirm) that neither the Company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

None



Shannon K. Cullen  
Notary Public

  
Signature  
MANAGING PARTNER & PRINCIPAL  
Title



**This report contains (check all applicable boxes):**

- ☒ (X) (a) Facing page.
- ☒ (X) (b) Statement of Financial Condition.
- ☒ (X) (c) Statement of Income (Loss).
- ☒ (X) (d) Statement of Cash Flows.
- ☒ (X) (e) Statement of Changes in Stockholders' Equity.
- ☐ ( ) (f) Statement of Changes in Subordinated Liabilities (not applicable).
- ☒ (X) (g) Computation of Net Capital  
Pursuant to Rule 15c3-1 under the Securities Exchange Act of 1934.
- ☐ ( ) (h) Computation for Determination of Reserve Requirements for Brokers and  
Dealers Pursuant to Rule 15c3-3 under the Securities Exchange Act of 1934. (not  
applicable)
- ☐ ( ) (i) Information Relating to the Possession or Control Requirements  
for Brokers and Dealers Pursuant to Rule 15c3-3 under the  
Securities Exchange Act of 1934 (not applicable).
- ☐ ( ) (j) A Reconciliation, including Appropriate Explanations, of the Computation of Net  
Capital Under Rule 15c3-1 and the Computation for Determination of the  
Reserve Requirements Under Rule 15c3-3 (not applicable).
- ☐ ( ) (k) A Reconciliation Between the Audited and Unaudited Consolidated Statements  
of Financial Condition With Respect to Methods of Consolidation (not  
applicable).
- ☒ (X) (l) An Oath or Affirmation.
- ☒ (X) (m) A Copy of the SIPC Supplemental Report.
- ☒ (X) (n) Review report on management's assertion letter regarding (k)(2)(i) exemption.
- ☐ ( ) (o) Management's assertion letter regarding (k)(2)(i) exemption.



**Capstone Capital Markets**  
Member FINRA/SIPC

Financial Statements and Supplementary Information  
Year Ended December 31, 2017



## Report of Independent Registered Public Accounting Firm

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To the Member of Capstone Capital Markets LLC:

### *Opinion on the Financial Statements*

We have audited the accompanying statement of financial condition of Capstone Capital Markets LLC (the "Company") as of December 31, 2017, the related statements of operations and changes in member's equity and cash flows for the year then ended, and the related notes (collectively, referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### *Basis for Opinion*

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risk of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### ***Supplementary Information***

The Computation of Net Capital Pursuant to Rule 15c3-1 (“supplementary information”) has been subjected to audit procedures performed in conjunction with the audit of the Company’s financial statements. The supplementary information is the responsibility of the Company’s management. Our audit procedures included determining whether the supplementary information reconciles to the financial statements or the underlying accounting and other records, as applicable and performing procedures to test the completeness and accuracy of the information presented in the supplementary information. In forming our opinion on the supplementary information, we evaluated whether the supplemental information, including its form and content, is presented in conformity with 17 C.F.R. § 240.17a-5. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole.

We have served as the Company’s auditor since 2013.

*Wolf & Company, P.C.*

Boston, Massachusetts

February 23, 2018

## Table of Contents

Report of Independent Registered Public Accounting Firm	1
Financial Statements:	
Statements of Financial Condition	2
Statements of Operations and Changes in Member's Equity	3
Statements of Cash Flows	4
Notes to Financial Statements	5-10
Supplementary Information:	
Schedule of Computation of Net Capital Under Rule 15c3-1 and	
Other Information Under Rule 15c3-3 of the Securities and	
Exchange Commission	11
Report of Independent Registered Public Accounting Firm	12
Exemption Report	13

# Capstone Capital Markets LLC

## Statement of Financial Condition

December 31, 2017

<b>ASSETS</b>		
<u>Current Assets</u>		
Cash and cash equivalents	\$	820,823
Due from Parent		225,765
Due from Affiliate		724,710
Total Current Assets		1,771,298
Investments, at fair value		31,222
<b>Total Assets</b>		<b>\$ 1,802,520</b>
<b>LIABILITIES &amp; MEMBER'S EQUITY</b>		
<u>Current Liabilities</u>		
Accounts payable	\$	15,372
Deferred revenue		29,167
Total Current Liabilities		44,539
Member's Equity		1,757,981
<b>Total Liabilities &amp; Member's Equity</b>		<b>\$ 1,802,520</b>

See accompanying notes to financial statements.

# Capstone Capital Markets LLC

## Statements of Operations and Changes in Member's Equity

Year Ended December 31, 2017

<b>Revenue:</b>	
Retainer fees	\$ 20,832
Advisory fees	203,286
Reimbursed expenses	2,308
Revenue share	724,710
Total Revenue	<u>\$ 951,136</u>
<b>Expenses:</b>	
Compensation and related expenses	65,902
Office expenses	40,495
Professional fees	37,345
Corporate fees and taxes	21,389
Employee benefits	2,572
Client related	1,514
Total Expenses	<u>\$ 169,217</u>
<b>Net Income From Operations</b>	<b>781,919</b>
Interest Income	1,608
<b>Net Income</b>	<u><b>783,527</b></u>
<b>Member's Equity, Beginning</b>	<u><b>974,454</b></u>
<b>Member's Equity, Ending</b>	<u><u><b>\$ 1,757,981</b></u></u>

See accompanying notes to financial statements.



# Capstone Capital Markets LLC

## Statement of Cashflows

Year Ended December 31, 2017

<b>Cash Flows from Operating Activities:</b>	
Net Income	\$ 783,527
Adjustments to reconcile net income to net cash used by operating activities:	
Increase in Due from Affiliate	(724,710)
Increase in Due from Parent	(239,564)
Success fees received in the form of Warrants	(15,786)
Increase in Deferred revenue	29,167
Decrease in Accounts payable	(1,403)
Net cash used by operating activities	<u>\$ (168,769)</u>
Net decrease in cash and cash equivalents	(168,769)
<b>Cash and cash equivalents, beginning</b>	<b><u>\$ 989,592</u></b>
<b>Cash and cash equivalents, ending</b>	<b><u>\$ 820,823</u></b>
Supplemental disclosure of non-cash investing activities:	
Success fees received in the form of warrants	<u>\$ 15,786</u>

See accompanying notes to financial statements.

# Capstone Capital Markets LLC

## Notes to Financial Statements

Year Ended December 31, 2017

### 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

#### ***Reporting Entity***

Capstone Capital Markets LLC (the "Company"), which is a wholly-owned subsidiary of Capstone Corporate Finance LLC (the "Parent"), was formed on April 8, 2004, as a Delaware limited liability company. On December 21, 2017 the parent changed their name to Capstone Headwaters LLC. The Company is a broker-dealer registered with the Securities and Exchange Commission ("SEC") and is a member of the Financial Industry Regulatory Authority ("FINRA"). The Company provides private placement services for companies located throughout the United States.

The Company claims exemption from the requirements of Rule 15c3-3 under Section (k)(2)(i) of Rule 15c3-3.

#### ***Basis of Presentation***

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). All items of income and expense are accounted for on the accrual basis.

#### ***Revenue Recognition***

The Company recognizes success fees associated with private placements at the time the placement is completed and the revenue is determinable, generally on the date the placement transaction closes. To the extent that any success fee is due as a result of the private placement but contingent on future events, no revenue is recognized until contingency is resolved. Success fees received in the form of equity instruments and reported as investments in the statement of financial condition are recorded at the fair value of the instrument or the services, whichever is more reliably measurable. Subsequent changes in fair value are recorded as unrealized gains or losses in the statement of income. Nonrefundable retainer fees for advisory services are recognized as the services are performed over the term of the service contract. In addition, the Company records revenues derived from contractually reimbursable out-of-pocket expenses when such expenses have been incurred and invoiced.

# Capstone Capital Markets LLC

## Notes to Financial Statements (Continued)

### **ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### ***Fair Value Hierarchy***

The Company groups its assets and liabilities measured at fair value in three levels which are based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 – Valuation is based on quoted prices in active markets for identical assets or liabilities. Quoted prices are obtained from readily available pricing sources for market transactions at the measurement date.

Level 2 – Valuation is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using unobservable inputs to pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The level of the fair value hierarchy in which the fair value measurement falls is determined by the lowest level input that is significant to the fair value measurement.

#### ***Cash and Cash Equivalents***

The Company maintains its cash in bank deposit accounts which, at times, may exceed the federally insured limits. The Company has a cash management program, which provides for the investment of excess cash balances primarily in short-term money market accounts. The Company considers such highly-liquid investments with original maturities of three months or less when purchased to be cash equivalents. The value, liquidity and related income of these investments are sensitive to changes in economic conditions and may be adversely affected by shifts in the market and changes in interest rates.

# Capstone Capital Markets LLC

## Notes to Financial Statements (Continued)

### **ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (concluded)**

#### ***Income Taxes***

No provision for federal or state income taxes is presented in these financial statements, because the Company is a limited liability company, which is taxed as a partnership and, accordingly, its taxable income is allocated to its member for federal and state income tax reporting purposes. However, in certain circumstances, the Company may be required to pay income taxes to a state or foreign country.

The Company assesses the recording of uncertain tax positions by evaluating the minimum recognition threshold and measurement requirements a tax position must meet before being recognized as a benefit in the financial statements. The Company has not recognized a liability for any uncertain tax benefits as of December 31, 2017. The Company's policy is to recognize interest and penalties as a component of income tax expense, if any, in its statements of operations and changes in member's equity.

Generally, the Company is no longer open to examination by the applicable taxing authorities for the tax years prior to December 31, 2014.

#### ***Uses of Estimates***

Management has used estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities in its preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America. Actual results experienced by the Company may differ from those estimates.

## **2. RELATED PARTY TRANSACTIONS**

Under the terms of an expense sharing arrangement, certain overhead expenses are allocated to the Company based on management's best estimates. Allocated overhead expenses for the year ended December 31, 2017 include payroll and related expenses, occupancy, and office expenses amounting to \$169,217. The Company reimburses the Parent in full for any direct expenses paid by the Parent on the Company's behalf.

# Capstone Capital Markets LLC

## Notes to Financial Statements (Continued)

### RELATED PARTY TRANSACTIONS (continued)

A revenue sharing agreement was entered into between the Parent, the Company, and Headwaters BD LLC, an affiliated entity, on December 22, 2017, effective November 30, 2017 and expiring the earlier of when all retained contracts have been assigned, expired, terminated or fully performed or December 31, 2018, whereby all revenue received under the retained contracts, after expenses, as defined, are deducted, is shared between Headwaters BD and the Company based on the parties' performance of services. Headwaters BD is the contracting party under the retained contracts and is responsible for collection under the contracts. Registered employees under the Headwaters BD contracts will remain registered under Headwaters BD and may be dually registered under the Company. During 2017 the Company recognized \$724,710 of revenue under this agreement and is included in the due from affiliate as of December 31, 2017.

### 3. INVESTMENTS

At December 31, 2017, investments of \$31,222 consist of warrants to purchase common stock of private companies. These warrants were received in connection with private placements in December 2013 and December 2017. There were no changes in estimated fair value of these investments in 2017. The Company's investment exposes it to various types of risk such as market, credit and general economic risks. Due to the uncertainty related to changes in the fair value of investments associated with such risks, it is at least reasonably possible that changes in risk factors in the near term could materially affect the amounts reported in the financial statements.

### 4. FAIR VALUE MEASUREMENTS

The following table categorizes within the fair value hierarchy, the Company's financial assets measured at fair value on a recurring basis as of December 31, 2017:

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Investments	\$ -	\$ -	\$ 31,222	<b>\$ 31,222</b>

Level 3 assets represent two holdings. See Note 3. The warrants were valued by using the Black-Scholes option pricing model.

# Capstone Capital Markets LLC

## Notes to Financial Statements (Continued)

### FAIR VALUE MEASUREMENTS (concluded)

The following table presents additional information about the valuation of Level 3 investments as of December 31, 2017.

Quantitative Information about Level 3 Fair Value Measurements				
	Fair Value	Valuation Technique	Unobservable Inputs	Quantitative Unobservable Input
Warrants to purchase common stock	\$ 15,436	Black-Scholes pricing model	Estimated Term Volatility Rate Risk-Free Interest Rate Marketability Discount	<b>5 years</b> <b>33.21%</b> <b>1.93%</b> <b>80%</b>
Warrants to purchase common stock	\$ 15,786	Black-Scholes pricing model	Estimated Term Volatility Rate Risk-Free Interest Rate Marketability Discount	<b>5 years</b> <b>39.96%</b> <b>2.42%</b> <b>80%</b>

Both observable and unobservable inputs may be used to determine the fair value of investments that the Company has classified within the Level 3 category. As a result, the unrealized gains and losses for assets and liabilities within the Level 3 category may include changes in fair value that were attributable to both observable and unobservable inputs.

The following table presents additional information about level 3 investments measured at fair value.

<b>Balance as of December 31, 2016</b>	<b>\$ 15,436</b>
Revenue received in the form of warrants to purchase common stock	15,786
<b>Balance as of December 31, 2017</b>	<b>\$ 31,222</b>
Change in net unrealized gains/losses for investments held at December 31, 2017	\$ -

# Capstone Capital Markets LLC

## Notes to Financial Statements (Continued)

### 5. NET CAPITAL

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-I), which requires the maintenance of minimum net capital of not less than the greater of 6-2/3% of aggregate indebtedness or \$5,000 (\$5,000 as of December 31, 2017). As of December 31, 2017, the Company's net capital amounted to \$776,284.

Rule 15c3-I also requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. The Company's aggregate indebtedness to net capital ratio amounted to 0.058 to 1 as of December 31, 2017.

### 6. CONTINGENCIES

#### *Indemnifications*

In the ordinary course of business, the Company enters into various agreements containing standard indemnification provisions. The Company's indemnification obligations under such provisions are typically in effect from the date of execution of the applicable agreement through the end of the applicable statute of limitations. The aggregate maximum potential future liability of the Company under such indemnification provisions is uncertain. As of December 31, 2017, no amounts have been accrued related to such indemnification provisions.

# Capstone Capital Markets LLC

## Schedule of Computation of Net Capital Under Rule 15c3-1 and Other Information Under Rule 15c3-3 of the Securities and Exchange Commission

December 31, 2017

Aggregated Indebtedness	\$ 44,539
Member's Equity	1,757,981
Less: Non-allowable assets	
Due from Parent	(225,765)
Due from Affiliate	(724,710)
Investments, at fair value	(31,222)
Total Non-allowable assets	(981,697)
<b>Net Capital</b>	<b>\$ 776,284</b>
Minimum net capital requirement to be maintained	(5,000)
Net capital in excess of requirements	\$ 771,284
Ratio of aggregate indebtedness to net capital	.058 to 1

### Reconciliation of Audited Computation of Net Capital Under Rule 15c3-1 to the Unaudited FOCUS Report Part IIA

No material differences exist between the above computation of net capital and the audited filing of Part IIA of the FOCUS report as of December 31, 2017. Accordingly, no reconciliation of audited computation of net capital under Rule 15c3-1 to the unaudited FOCUS report Part IIA has been presented.





## Report of Independent Registered Public Accounting Firm

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To the Member of Capstone Capital Markets LLC:

We have reviewed management's statements, included in the accompanying Exemption Report, in which (a) Capstone Capital Markets LLC (the "Company") identified the following provisions under 17 C.F.R. § 15c3-3(k) under which the Company claimed an exemption from 17 C.F.R. § 240.15c3-3: (k)(2)(i) (the "exemption provisions") and (b) the Company stated that it met the identified exemption provisions throughout the most recent fiscal year without exception. The Company's management is responsible for compliance with the exemption provisions and its statements.

Our review was conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States) and, accordingly, includes inquiries and other review procedures to obtain evidence about the Company's compliance with the exemption provisions. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on management's statements. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to management's statements referred to above for them to be fairly stated, in all material respects, based on the provisions set forth in paragraph (k)(2)(i) of Rule 15c3-3 under the Securities Exchange Act of 1934.

*Wolf & Company, P.C.*

Boston, Massachusetts  
February 23, 2018

### **Capstone Capital Markets' Exemption Report**

Capstone Capital Markets LLC (the "Company") is a registered broker-dealer subject to Rule 17a-5 promulgated by the Securities and Exchange Commission (17 C.F.R. §240.17a-5, "Reports to be made by certain brokers and dealers"). This Exemption Report was prepared as required by 17 C.F.R. § 240.17a-5(d)(1) and (4). To the best of its knowledge and belief, the Company states the following:

The Company claimed an exemption from 17 C.F.R. § 240.15c3-3 under the following provisions of 17 C.F.R. § 240.15c3-3 (k)(2)(i).

The Company met the identified exemption provisions in 17 C.F.R. § 240.15c3-3(k) throughout the most recent fiscal year without exception.

Capstone Capital Markets LLC

I, John M. Ferrara, swear (or affirm) that, to my best knowledge and belief, this Exemption Report is true and correct.

By:



Title: Managing Partner

Date: February 15, 2018